

Message Text

LIMITED OFFICIAL USE

PAGE 01 STATE 277129
ORIGIN TRSE-00

INFO OCT-01 ARA-10 ISO-00 AGRE-00 AID-05 CIAE-00
COME-00 EB-08 FRB-03 INR-07 NSAE-00 USIA-06
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 IGA-02
NSC-05 SS-15 STR-05 CEA-01 IO-13 L-03 PA-01
PRS-01 /099 R

DRAFTED BY TREAS;OASIA:JGIANOLA
APPROVED BY ARA/AND:ASCFULLER
TREAS/OASIA:F MARESCA
USDA (INFO)
ARA/LA/SA:RWEBER
EB (INFO)
EXIM:TKINGSLEY (INFO)
-----060789 200625Z /16
R 182015Z NOV 77
FM SECSTATE WASHDC
TO AMEMBASSY LIMA

LIMITED OFFICIAL USE STATE 277129

E.O. 11652: N/A

TAGS: EFIN, EAID, PE

SUBJECT: PERU: MEETING WITH BROUSSET ON ILO-DESAGUADERO
LOAN, ETC.

REF: LIMA 9789

1. SUMMARY: ON NOVEMBER 8, A MEETING WAS HELD AT TREASURY
WITH JOSE LUIS BROUSSET (PRESIDENT OF BANCO POPULAR) AND
IGOR VELAZQUEZ AND JULIO VEGA FROM THE PERUVIAN EMBASSY.
U.S. PARTICIPANTS WERE: FRANK MARESCA, ROBERT FREE AND JILL
GIANOLA (TREASURY), RICHARD WEBER (AID), AND A.S.C. FULLER
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 277129

(STATE). THE MEETING CENTERED ON PERU'S COUNTERPART PROB-
LEM, RELATING BOTH TO THE ILO-DESAGUADERO LOAN AND U.S.
BILATERAL ASSISTANCE. BROUSSET SAID HE THOUGHT THE GOP WOULD
WITHDRAW THE ILO LOAN AND PROMISED TO PROVIDE AN ANSWER THAT
AFTERNOON AFTER CONSULTING WITH LIMA. WEBER SUGGESTED IN
FUTURE PERU TRY TO OBTAIN THE MINIMUM COUNTERPART REQUIRED
FOR IFI LOANS AND SAID THE U.S. IS PREPARED TO DO ALL IT

CAN TO REDUCE THE COUNTERPART COMPONENT OF BILATERAL ASSISTANCE. BROUSSET RAISED ISSUES OF PL 480 AND EXIMBANK LENDING. MARESCA INQUIRED ABOUT THE IMF STAND-BY ARRANGEMENT. END SUMMARY.

2. MR. MARESCA BEGAN BY STATING THAT THE MEETING, AS HE ENVISIONED IT, WOULD FOCUS ON PERU'S COUNTERPART PROBLEM, BOTH AS IT RELATES TO THE IDB LOAN AND TO U.S. BILATERAL ASSISTANCE TO PERU.

3. MR. BROUSSET SAID, REGARDING THE ILO-DESAGUADERO LOAN SCHEDULED TO BE CONSIDERED BY THE IDB BOARD, THE GOP COULD IN FACT COME UP WITH NECESSARY COUNTERPART FINANCING FOR THE LOAN. ABOUT \$100 MILLION IN LOANS TO PERU FROM THE DEVELOPMENT BANKS HAVE BEEN APPROVED BUT HAVE NOT BEEN DISBURSED. COUNTERPART FUNDS EARMARKED FOR ONE OR MORE OF THOSE PROJECTS COULD BE USED FOR THE ILO-DESAGUADERO LOAN. BROUSSET SAID THE MAJOR OBJECTIVE OF THE GOP WAS TO OBTAIN FOREIGN EXCHANGE. THIS COULD BE DONE THROUGH APPROVAL OF THE ILO LOAN OR IN OTHER WAYS. BROUSSET SAID HE PERSONALLY PREFERRED THE OTHER WAYS. BROUSSET SUGGESTED A KIND OF GENTLEMEN'S AGREEMENT COULD BE REACHED WHEREBY PERU WOULD WITHDRAW THE ILO LOAN AND THE U.S. WOULD OFFER OTHER WAYS PERU COULD OBTAIN THE NEEDED FOREIGN EXCHANGE.

4. MARESCA ASKED IF OTHER PROJECTS FOR PERU WERE UNDER LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 STATE 277129

CONSIDERATION BY THE IDB. BROUSSET RESPONDED THAT OTHER LOANS WERE BEING CONSIDERED, INCLUDING A \$25 MILLION CREDIT TO THE BANCO INDUSTRIAL.

5. MR. WEBER SUGGESTED THAT PERU ASK THE INTERNATIONAL DEVELOPMENT BANKS TO REDUCE THE COUNTERPART REQUIREMENT FOR LOANS TO PERU TO THE ABSOLUTE MINIMUM. HE SAID A.I.D. IS PREPARED TO DO WHAT IT CAN WITHIN STATUTORY LIMITS TO EASE THE COUNTERPART PROBLEM WITH OUR BILATERAL LOANS, BUT IT IS HARD FOR THE U.S. TO DO THIS IF THE INTERNATIONAL DEVELOPMENT BANKS ARE NOT HELPING. HE ADDED THAT ROAD LOANS IN GENERAL ARE BAD CHOICES DURING A FINANCIAL CRISIS BECAUSE THEY ARE INFLATIONARY - THE BENEFITS ACCRUE IN THE RELATIVELY DISTANT FUTURE, THE COUNTERPART COMPONENT IS HIGH, AND THEY DISBURSE VERY FLOWLY.

6. MR. BROUSSET SAID HE THOUGHT PERU WOULD WITHDRAW THE ILO PROJECT FROM THE IDB BOARD AGENDA. HOWEVER, HE HAD TO CHECK WITH LIMA AND PROMISED TO HAVE AN ANSWER BY THAT AFTERNOON.

7. MR. MARESCA SAID THAT WAS A GOOD FIRST STEP AND

SUGGESTED THAT THE NEXT STEP WOULD BE TO WORK WITH THE BANKS TO PREPARE BETTER PROJECTS.

8. MR. BROUSSET INQUIRED ABOUT THE POSSIBILITY OF USING PROCEEDS FROM PL 480 SALES, E.G., AS COUNTERPART FINANCING FOR AN IDB LOAN. MR. FREE SAID HE DOUBTED THERE WAS ANY PROBLEM VIS-A-VIS IDB POLICY AND, AFTER ALL, MONEY IS FUNGIBLE.

9. MR. WEBER SAID HE DOUBTED THERE WAS ANY PROBLEM FROM A USG STANDPOINT. IN FACT, THE U.S. WAS READY TO PROPOSE THAT PERU USE SOME OF THE PROCEEDS FROM PL 480 SALES AS COUNTERPART FUNDS FOR AID LOANS. HE NOTED THAT THE IDB AND IBRD HAVE REQUIREMENTS ON WHAT PORTION OF A PROJECT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 STATE 277129

MUST BE FUNDED INTERNALLY. BUT HE SAID THE BANKS HAVE SOME FLEXIBILITY, SO PERU SHOULD TRY TO MINIMIZE THE COUNTERPART PORTION IN ORDER TO INCREASE THE PROSPECTS OF MEETING THE TIGHT PUBLIC SECTOR EXPENDITURE CEILING UNDER THE IMF STAND-BY.

10. IN RESPONSE TO A QUESTION FROM MR. VELASQUEZ, MR. WEBER SAID THE TOTAL DOLLAR AMOUNT OF AID LOANS PROPOSED FOR PERU WOULD NOT GO UP BUT AN EFFORT WAS BEING MADE TO REDUCE THE COUNTERPART FINANCING REQUIREMENT TO THE STATUTORY LIMIT - 25 PERCENT. WHEN FIRST PROPOSED, THE LOANS HAD A COUNTERPART REQUIREMENT OF ABOUT 40 PERCENT.

11. MR. FREE ALSO SUGGESTED THAT IN DEVELOPING FUTURE PROJECTS WITH THE BANKS, PERU TRY TO OBTAIN HIGHER ALLOWANCES FOR CONTINGENCIES (TO COVER COST OVERRUNS). HE NOTED THAT THE CONTINGENCY ALLOWANCE WAS ONLY 12 PERCENT IN THE ILO LOAN WHILE INFLATION RATES IN PERU WERE EXPECTED TO BE MUCH HIGHER.

12. MR. BROUSSET ASKED IF PERU COULD EXPECT TO GET \$5 MILLION IN PL 480 NOW AND AN ADDITIONAL \$15 MILLION APPROVED AT SOME LATER DATE.

13. MR. FULLER SAID \$20 MILLION IN PL 480 HAD BEEN REQUESTED FOR PERU. ONLY \$5 MILLION HAS BEEN ALLOCATED FOR PERU; THE REST IS BEING SOUGHT FROM THE UNALLOCATED RESERVE FUND.

14. MR. WEBER NOTED THAT A \$15 MILLION HOUSING INVESTMENT GUARANTEE PROGRAM HAD RECENTLY BEEN APPROVED FOR PERU.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 STATE 277129

15. MR. BROUSSET THEN DISCUSSED EXIMBANK FACILITIES FOR PERU - SEPTTEL TO FOLLOW.

16. MR. MARESCA THEN ASKED IF MR. BROUSSET COULD ANSWER A FEW QUESTIONS ABOUT THE STAND-BY ARRANGEMENT PERU RECENTLY NEGOTIATED WITH THE IMF. IN PARTICULAR, MR. MARESCA ASKED WHY THE PUBLIC SECTOR DEFICIT WAS SO LARGE IN 1977 AND HOW PERU EXPECTED TO MAKE SUCH A DRASTIC REDUCTION IN 1978.

17. MR. BROUSSET SAID THE DEFICIT WOULD BE REDUCED BY INCREASING REVENUES (CLOSING LOOPHOLES IN THE TAX SYSTEM, CRACKING DOWN ON TAX EVASION) AND BY CUTTING EXPENDITURES (CONSOLIDATING MINISTRIES, TERMINATING SOME PUBLIC ENTITIES SUCH AS THE EARTHQUAKE AGENCY AND REDUCING SUBSIDIES).

18. MR. MARESCA THEN ASKED ABOUT THE \$150 MILLION UN-FINANCED GAP IN THE EXTERNAL SECTOR PROJECTED FOR 1978. MR. BROUSSET SAID PERU WOULD HAVE TO GET THE MONEY FROM COMMERCIAL BANKS. PERU EXPECTS ABOUT \$300 MILLION FROM THE BANKS NEXT YEAR - \$150 MILLION WOULD COVER THE DEFICIT AND \$200 MILLION WOULD BE ADDED TO INTERNATIONAL RESERVES (THUS STERILIZING THE EXCESS FOREIGN EXCHANGE).

19. MR. MARESCA ASKED IF MR. BROUSSET COULD PROVIDE THE U.S. EMBASSY IN LIMA WITH A TABLE SHOWING FINANCIAL FLOWS ESTIMATED FOR 1978.

20. MR. MARESCA ASKED ABOUT THE SWAPS PERU HAD RECEIVED FROM CENTRAL BANKS OF CERTAIN LATIN AMERICAN COUNTRIES (VENEZUELA, BRAZIL). MR. BROUSSET REPLIED THAT A PORTION OF THE SWAPS HAS YET TO BE DISBURSED AND THE SWAPS WILL BE ROLLED OVER IN 1978 AS THEY COME DUE.

21. MR. BROUSSET ASKED IF ANY BRIDGE FINANCING WOULD BE AVAILABLE FROM THE U.S. TREASURY. MR. MARESCA TOLD HIM LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 06 STATE 277129

NO.

22. MR. BROUSSET THEN SUGGESTED THAT THE U.S. GOVERNMENT ISSUE A PRESS RELEASE NOTING THAT PERU HAD REACHED AGREEMENT WITH THE IMF AND PUTTING IN A FEW GOOD WORDS FOR PERU. HE SAID THIS WOULD HELP PERU IN ITS DEALINGS WITH THE U.S. COMMERCIAL BANKS.

23. MR. MARESCA SAID IN HIS OPINION AN INFORMAL APPROACH WAS PREFERABLE. HE SAID TREASURY OFFICIALS ARE IN CONTACT WITH COMMERCIAL BANKS AND THEY "TELL IT LIKE IT IS, TO BANKERS. USG OFFICIALS MUST HAVE THE NECESSARY "AMMUNITION, - EVIDENCE THAT THE GOP IS IMPLEMENTING THE STABILIZATION PROGRAM - IN ORDER TO PUT IN A GOOD WORD FOR PERU.

24. NOTE: BROUSSET CALLED MARESCA AFTERNOON OF NOVEMBER 8 TO SAY GOP DID NOT REPEAT NOT INTEND TO WITHDRAW ILO LOAN DUE TO "INTERNATIONAL POLITICAL" AND ECONOMIC REASONS. AFTER MARESCA CONSULTED WITH U.S. EXECUTIVE DIRECTOR AT IDB, STATE AND WITHIN TREASURY, HE TOLD BROUSSET U.S. PLANNED TO OPPOSE LOAN AT IDB BOARD MEETING WITH AN EXPLANATORY STATEMENT IF LOAN NOT WITHDRAWN. IT WAS EXPLAINED THAT A U.S. "NO" VOTE OR ABSTENTION WOULD KILL PROJECT DUE TO FSO FINANCING. IN THAT CASE, BROUSSET SAID HE WAS INSTRUCTED BY LIMA TO TAKE THE LOAN OFF THE IDB AGENDA, WHICH WAS DONE.

25. AS REPORTED BY EMBASSY (REFTEL), CONSIDERATION OF IDB LOAN HAS BEEN "POSTPONED FOR A TIME". NOVEMBER 11 A STATE DEPARTMENT OFFICER WAS INFORMED - BOTH BY THE PERUVIAN IDB EXECUTIVE DIRECTOR AND BY THE PERUVIAN AMBASSADOR - THAT THE GOP WAS PLANNING TO RESTRUCTURE THE LOAN TO REDUCE THE COUNTERPART REQUIREMENT AND MIGHT IN TWO WEEKS TIME MOVE TO RE-PRESENT IT TO THE IDB BOARD. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 07 STATE 277129

FURTHER STEPS ARE BEING TAKEN TO DISSUADE THE PERUVIANS FROM THIS COURSE. WE WILL REPORT FURTHER. VANCE

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETINGS, LOANS
Control Number: n/a
Copy: SINGLE
Sent Date: 18-Nov-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE277129
Document Source: CORE
Document Unique ID: 00
Drafter: JGIANOLA
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770430-0673
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771140/aaaabidu.tel
Line Count: 258
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b7ba3816-c288-dd11-92da-001cc4696bcc
Office: ORIGIN TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 LIMA 9789
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 30-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 527044
Secure: OPEN
Status: NATIVE
Subject: PERU: MEETING WITH BROUSSET ON ILO-DESAGUADERO LOAN, ETC.
TAGS: EFIN, EAID, US, PE, ILO, IDB
To: LIMA
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/b7ba3816-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009